



DEFERRED COMPENSATION ADVISORY COMMITTEE

MINUTES

Thursday, April 24, 2008

For information about this meeting, contact the Deferred Compensation Program Office at 408-975-1465 or email 457DefCompensation@sanjoseca.gov

Chair Pascal Roubineau called the Deferred Compensation Advisory Committee meeting to order at 9:08 a.m. on Thursday, April 24, 2008, City Hall, Tower, T-1254

Roll Call

Pascal Roubineau, Chair	Employees' Representative
Julia Cooper	City Manager's Representative
Mark Skeen	Firefighter Representative
Conrad Taylor	Police Representative
Donna Busse	Management Employees' Representative

Absent

Peter Jensen, Vice Chair	City Manager's Representative
Trish Glassey	Employees' Representative

Also Present

Mollie Dent	City Attorney's Office
Jeanne Groen	Human Resources, Deferred Compensation Secretary
Cheryl Boston	Human Resources, Deferred Compensation Staff
Mike Ryder	Finance
Brad Imamura	PW – Real Estate Division
Adora Gailo	Finance
Bill Thomas	Federated Retiree
Sue Bradford-Moore	Retiree
Bill Tugaw	Consultant, SST Benefits
Gary Bozin	ING
Peter Belardinelli	ING

9:00 – 11:00 A.M.

April 24, 2008

City Hall, Wing W118

APPROVAL OF MINUTES

1. The February 28, 2008 date for the minutes noted on the agenda was incorrect. The correct date for approval is March 27, 2008.

M.S.C. (Skeen/Busse) to approve minutes for the March 27, 2008 meeting.



2. Waiver of Recourse Fees Update

Jeanne Groen informed Committee that Human Resources paid the Waiver of Recourse Fees from the General Funds.

3. Acceptance of Amendment to SST Consultants Contract

Chair Roubineau reminded the Committee that the contract Amendment was created to ensure the Consultant acknowledges his fiduciary responsibility.

M.S.C. (Busse/Taylor) to accept Amendment to SST Consultants Contract

4. Acceptance of Amendment to DCAC Rules of Order

Chair Roubineau reviewed the Amendment related to Committee member absences. Member Cooper requested that the Amendment be changed to reflect City bereavement, injury and sick leave policy. Jeanne Groen, on behalf of City Attorney Suzanne Hutchins, asked if the Committee wanted to entertain covering absences for Committee members who are also union representatives and may need to do certain activities in that role. City Attorney Mollie Dent clarified if this had been a conflict in the past and determined it had been for the Police Representative. Mollie Dent, City Attorney indicated the Attorney's Office would bring back further revisions for the Rules of Order to reflect City bereavement, injury and sick leave policies and will look into alternative language specific for the committee members who are also union representatives.

5. Self-Directed Brokerage Account participant mailing update

Gary Bozin, with ING, advised that letters had been sent to all participants in the Self-Directed Brokerage Accounts to allow them to trade stock and bonds. Fifty acknowledgements have been received from participants. ING will be contacting the remaining participants by phone to retrieve the remaining required forms.

6. Morningstar implementation update and participant education rollout

Gary Bozin, with ING, advised that staff has scheduled ten Morningstar meetings at City Hall and other locations. A payroll flyer has been created to announce the June 1, 2008 rollout. Morningstar contracts are being revised to reflect the implementation date of June 1, 2008.

7. Nomination and Selection of Vice Chair for Period 04/01/08 – 03/31/09

Chair Roubineau reported that the nomination and selection of Vice Chair needed to be revisited for proper motion.

M.S.C. (Skeen/Taylor) to nominate Peter Jensen to Vice Chair replicating last month's nomination with proper vote.



NEW BUSINESS

8. Deferred Compensation Fund Budget Status Update and required year-end actions

Jeanne Groen stated that Adora Gailo had provided a budget status update for the current year and the personal services are under budget. The non-personal services budget as of March 31, 2008 with projected contract commitments is currently at 99.88% of budget. Ms. Groen anticipates that when April expenses are posted, the non-personal budget will be over budget and she anticipates a budget adjustment will be brought to the Committee in May.

Ms. Groen also discussed the Human Resources budget approval process for fiscal year 2008-2009. The Deferred Compensation budget that was proposed was not fully accepted by the budget office. Increases for training, office expenses and informational tools were not approved. Member Cooper added that the Deferred Compensation Budget is not funded by the General Fund; it is funded by the Deferred Compensation Plan and is designed to ensure that staff is appropriately trained and able to provide adequate support to the program.

The Committee agreed that Member Cooper would approach the budget office on behalf of the Deferred Compensation Advisory Committee.

9. Deferred Compensation 1999-2005 Payroll Reconciliation

Jeanne Groen provided the following oral report to the Committee:

On February 12, 2005, the City's Finance Department provided a copy of a variance report of payroll contributions and wire transfers for the Deferred Compensation Plan, PTC Deferred Compensation Plan and the 401a Money Purchase Plan. This report covers the period of June 1999 through December 2005. The report indicates a net variance of \$194,272 in the control account for these Plans. The control account is a payroll account in which many items go into and out of the account, but the items processed through the control account are not limited to the Deferred Compensation funds.

Based on this report, Employee Benefits requested the same kind of variance report be prepared for January 2006 through 2007. Finance completed this study and an additional variance of \$308.63 accrued to this control account. In the initial meeting, Finance had indicated that the issues identified were corrected as a result of the original variance report.

It is not uncommon to have a temporary variance in the control account for these Plans. The timing of posting payroll transactions and wire transfers will result in variances each pay period. However, the trend of increasing shortages, which remain unresolved over time, is a concern as it indicates the increasing shortage is not related solely to the timing of transaction postings and that there is an issue that needs to be addressed.



Staff conducted a preliminary review of historical transfers from 1999 through 2007, focusing on the pay periods with the largest variance. A single transaction was found to be an error and resulted in more money, \$51,000, being sent to participant accounts than was collected through payroll. The single error affected a total of six employees. Another issue was found where money had been sent to ICMA and then refunded to the City. This refund was not reflected in the variance report. Those refund checks are not part of the variance report. Based on what staff found in the initial review and what has been found since pay period 1 of 2008, Human Resources and Finance met. A decision was made to do a full reconciliation of the control account to identify the specific errors from 1999 to present.

Jeanne Groen anticipates that a monthly report on this project will need to be made to the Committee. Additionally, she believes that processes need to be reviewed.

The City Attorney's office has been contacted regarding the six employees who had an over contribution made to their accounts. The majority of these transactions resulted in exceeding the participant's annual maximums.

Chair Roubineau clarified that the net variance may or may not be the total amount contributed to participant accounts. Ms. Groen confirmed that the report was only for payroll transactions and does not reflect any cash transactions. This report is only an indicator, and is not an actual reconciliation by participant.

Ms. Groen stated that the majority of transactions are going fine, and since 2005, the variance reports are much cleaner. There does, however, appear to be a coordination issue on some of the manual transactions. Human Resources and Finance will need to set procedures to address variances.

Member Cooper asked that all reports on this issue be presented in a written report.

Bill Tugaw asked if the participants have separated from service and if they still have contribution funds in the plan. Ms. Groen stated that five of the six participants have withdrawn the over-contributions from the Plan; only one has funds still in the Plan. This transaction occurred in 2000. Chair Roubineau asked if these participants have been notified. Ms. Groen said that the City Attorney's Office is seeking guidance outside of the City on this issue first.

Member Cooper asked if some of these issues have the potential of being a closed session item. Attorney Molly Dent stated that it's not clear yet if the participant issue will come to the Committee in closed session. Additionally, it may not be a Deferred Compensation problem; it may be a City problem. Member Cooper asked that the Attorney's Office keep the Committee apprised.



10. ING's Practices for educating participants on Loans

Gary Bozin stated that the loan program has been a big hit and many employees have taken advantage of this benefit. ING has noted that the applications for loans have slowed down. ING is beginning to communicate to people the pros and cons, as well as important things to consider when taking out a loan. When meeting with participants, ING advises participants that if you draw your retirement savings down, you will probably have less at retirement than someone who has not drawn down from their account. When you withdraw your retirement funds, you do pay yourself interest, but you don't get the growth of your investment that you may obtain in the market. ING also explains that many borrowers either eliminate or reduce their contributions because of the withdrawal, which further reduces what the participant will have at retirement. ING is working with staff to develop better communications about the loan provisions and is developing reports on loans, such as in participation by department.

Gary Bozin reports that in the first month of the loan program, there were 110 loans. Last month, there were only twenty loans. The average loan is over \$20,000 and is requested for a general purpose, so must the loan must be repaid in five years.

Chair Roubineau asked ING to better communicate the tax implications.

Bill Tugaw pointed out that the increase in loans at the City of San Jose is not unique. Lenders have tightened up the approvals of loans.

Gary Bozin will provide a new copy of the communication next month. Member Taylor asked if ING could bring the report of loans by department. Gary Bozin said that the raw data on loans has been pulled but has not been analyzed yet.

11. Review and Approve Proposed Communication to Retirees Regarding 457 Account Balance Rollout to Brokerage Houses upon Separation of Service

Jeanne Groen reviewed the revised communication memo regarding the roll over of funds from the Deferred Compensation Plan to other brokerage houses. The DCAC reviewed this communication last month and requested a change be made to show the account over 30 years rather than over 35 years. The purpose of this communication is for labor associations and for staff to provide at the time an employee receives retirement counseling. The participants will be informed on what they currently have and can make a better decision about their funds.

M.S.C. (Skeen/Busse) to approve and disseminate the Communication to Retirees Regarding 457 Account Balance Rollout to Brokerage Houses upon Separation of Service.



SUBCOMMITTEE REPORTS/RECOMMENDATIONS

12. Subcommittee Report/Recommendations on the April 1, 2009 Investment Subcommittee Meeting

Member Cooper reported that the Subcommittee met on April 1st, yesterday, and will continue to meet in May. The Subcommittee is working on revising the Investment Policy. Progress is going slower than expected because the Subcommittee is working through the recommendations on policies.

Gary Bozin reported on the ING Annual Investment Review presented to the Subcommittee. ING provides a score card of fund performance, which breaks the fund performance down in five categories and provides score card ratings. ING reviews a fund on one-, five- and ten-year returns, and on a 24 month rolling quarterly month return. ING scores funds on established criteria and comes up with a point score ranging from 1 to 10. Anything below 4 goes onto the watch list.

Member Skeen asked if there would be a way to add a realty fund to the Deferred Compensation funds. Bill Tugaw stated that the Self-Directed brokerage account permits a participant to invest in these funds. Member Skeen clarified that he was interested in identifying one or two of the best realty funds with the best fees and offer them as a core option rather than offering the funds only through the self-directed brokerage accounts. Member Cooper expressed a concern about increasing the number of core option funds offered to participants. Member Skeen stated that the Committee has done a good job of coming up with different choices. Member Skeen feels that asset allocation is important and that the Committee should continue to provide information and choices in that direction.

Member Busse suggested that more research be done on how many funds to offer. Bill Tugaw stated that most entities are not adding specialty funds to their plans. Also, most employers are thinning their fund options. The Committee can make a different decision and this is a good time to make those decisions, however if the Committee does this, it would be going against the trend. Member Busse said that it's more confusing to have multiple funds in a single asset class than it is to add a very broad asset class.

Bill Tugaw gave a Summary Presentation of SST Consultants Report and highlighted information in the report. For the market overview, the portfolio is doing extremely well. The portfolio generated superior returns to almost every benchmark except foreign. Bill Tugaw reported that the trend in other clients is to see participants moving to stable value funds. At the City, this didn't happen and participants were still very aggressive.

An RFP has been issued for a new Stable Value fund manager. The Stable Value Option is currently managed by ING Investment Management Company, an ING family company. ING and Bill Tugaw will keep the committee informed on this issue.



Bill Tugaw stated that if a fund fails to achieve peer group benchmark over the three-year or five-year period, the fund must go on the watch list. The biggest difference between ING's score card and the Investment Policy is that the 10-year benchmark is not used. Most funds on the Watch List missed the Investment Policy's benchmark by very little. The one to watch will be the Templeton Global Smaller Companies.

SST recommends replacing the Contrafund VIP with Fidelity Insights. VIP Contrafund is an annuity version of the previous retail Contrafund offered by ICMA; both funds had the same fund manager, William Danoff. Just recently, Fidelity gave the VIP Contrafund to a different management team and this new team aggressively moved the VIP Contrafund away from the strategy used by William Danoff. The fund is no longer performing like the retail Contrafund. SST's investment team took a look at other investments currently managed by William Danoff. The fund called Fidelity Insights is managed by William Danoff and has the same management style of the retail Contrafund as well as similar expenses, returns and risk. Fidelity Insights is not yet five years old. However, by the time the City gives a 60 days notice to participants, the fund will be over 5 years old as required by the Investment Policy.

Member Skeen asked Bill Tugaw why Templeton Global Smaller Company was off so badly last year. Bill Tugaw said the one year performance was horrible. Gary Bozin added that the Templeton invested in smaller companies. The peer group it's compared to invests in world stocks (70% of which are invested in large cap funds). Small caps did very poorly last year. The peer group doesn't quite fit it, but Morningstar doesn't have very many, or different breakdowns.

M.S.C. (Busse/Taylor) to approve Agenda items 12c, 12d., and 12e.

Member Cooper asked whether the letter in Agenda Item 12 (f) would go to just those participants in the VIP Contrafund. Gary Bozin recommended sending the letter to every one who is eligible for the new fund, send on a day other than the first of a quarter (July 1st) and that the day be a Friday. The Committee selected to make the change available on July 11, 2008.

Chair Roubineau recommended adding a sentence to the letter to tell participants that if they are not currently in the VIP Contrafund, they do not need to do anything. Gary Bozin said he would make the change.

INFORMATIONAL ITEMS

13. Legislative Activities

Bill Tugaw did not provide a written report this month because he wanted to have an open discussion item to get the DCAC's feedback and direction on what the Committee would like to see. Legislative activities have slow periods and then incredibly aggressive periods. The



reports are updated the morning before the Committee meeting to give the Committee. To get a written report to the Committee, it will take about a month. His concern is that by putting a date on it, the information will be dated. Since change happens quickly, he'd like to get information to the Committee quickly.

Member Cooper requested a written report on legislation that is being watched. Then, an oral update can be given on anything that's changed. The minutes will then be the crosswalk between the written report and the oral update.

Chair Roubineau stated that since it's information only, we can discuss the information. Member Busse supports anything that accomplishes getting information on the Agenda written correctly.

Attorney Dent said if there was a written report and then a new piece of legislation comes out, there would need to be a supplemental item posted under the Sunshine rules. The recommendation by Member Cooper works for all other items.

Bill Tugaw stated that in the May meeting, you will receive the April report.

14. ING Service Logs for March 2008

The ING Service Log reports come out on the 10th of the month. The 15th of the month was the prior deadline. There will be times when this report won't be available. Member Cooper asked Attorney Dent if there is a way to obtain the information more timely because of a few days. Attorney Dent stated that hand outs are supposed to be posted with the Agenda. There are provisions for supplemental postings. The Attorney's office will work with staff on informational items.

Gary Bozin reported that there were 44 new enrollments, and we're up to 176 already for the quarter which is greater than last year. There have been more rollovers into the Plan and fewer out, so this is better. AEA has asked me to come out and talk about roll outs, so the word is getting out. There were only 2 unforeseeable hardships approved this year, which is less than the year before. This demonstrates that the participants are using loans rather than hardships.

Next week, ING is installing the Central Service Yard's kiosk. Fire Department and Airport are next on the priority list. The Fire Department kiosk was due next January, but ING may be able to get it in the next 4 to 6 weeks.

15. March 2008 Fund Performance Summary

No comments.



16. Next Meeting: May 22, 2008, City Hall, Wing, W-118, 9:00 a.m.

PUBLIC COMMENTS

Bill Tugaw announced that Chuck Sklader will represent SST next month.
Mark Skeen will need an unexcused absence next month as he'll be on vacation.

UNFORESEEABLE EMERGENCY WITHDRAWAL

17. Gary Bozin reported there were none to report.

ADJOURNMENT

M.S.C. (Skeen/Taylor) to adjourn meeting.

A handwritten signature in black ink, appearing to read "P. Roubineau", written over a horizontal line.

Pascal Roubineau, Chair
Deferred Compensation Committee

ATTEST:

A handwritten signature in black ink, appearing to read "Jeanne Groen", written over a horizontal line.

Jeanne Groen, Staff
Deferred Compensation

NOTE: M.S.C. MEANS MOTION SECONDED AND CARRIED, UNLESS OTHERWISE INDICATED, MOTION PASSED UNANIMOUSLY.